



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 28, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **COUNSELING4KIDS, INC. MENTAL HEALTH CONTRACT REVIEW – A  
DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a contract compliance review of Counseling4Kids, Inc. (Counseling4Kids or Agency), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with Counseling4Kids, a private non-profit community-based organization that provides services to clients in Service Planning Areas 2 and 6. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Fifth District.

DMH paid Counseling4Kids on a cost reimbursement basis between \$1.36 and \$2.62 per minute of staff time (\$81.60 to \$157.20 per hour) for services or approximately \$4.4 million for Fiscal Year (FY) 2007-08.

**Purpose/Methodology**

The purpose of our review was to determine whether Counseling4Kids complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

### **Results of Review**

Counseling4Kids did not maintain sufficient working capital to meet their current liabilities. Specifically, as of June 30, 2008, Counseling4Kids reported an operating loss of \$19,582 and negative net assets of \$38,470 on their audited financial statements. Agency management indicated that the Agency has been exploring ways to strengthen their fundraising activities and cost savings efforts to minimize operating deficits. Counseling4Kids needs to submit to DMH a plan indicating how they will improve their financial condition, including how they will maintain sufficient working capital.

Although Counseling4Kids has not maintained adequate working capital, Counseling4Kids was not delinquent with its obligations and appeared to provide adequate services to their clients. Counseling4Kids maintained documentation to support the mental health services billed and staff assigned to the County contract possessed the required qualifications. However, Counseling4Kids did not always comply with the County contract requirements and billed DMH \$96,358 in questioned costs. Specifically, Counseling4Kids:

- Did not complete some elements of the participants' Assessments, Client Care Plans and Progress Notes in accordance with the County contract.
- Charged DMH \$77,015 for donated office space. The property owner of the location did not charge the Agency rent from December 2007 through May 2008. However, Counseling4Kids charged DMH \$88,987 in rent expenditures when the Agency only paid \$11,972 for June 2008 rent. The County contract indicates that donated space is not reimbursable as direct or indirect expenditures.
- Charged DMH \$19,343 in FY 2007-08 for rental costs related to prior fiscal years. In September 2007, the property owner invoiced the Agency \$19,343 for additional lease expenditures for Calendar Year 2006. Instead of revising their prior year Cost Report, Counseling4Kids billed the expenditures on the FY 2007-08 Cost Report. The County contract does not allow agencies to bill for expenditures incurred outside the agreement period.
- Did not conduct criminal clearances for three (30%) of the ten employees working on the DMH program. Subsequent to our review, Counseling4Kids obtained criminal clearances for the three employees.
- Did not notify DMH when they disposed of 14 fixed assets and equipment totaling \$34,863 as required by the County contract. Subsequent to our review, Counseling4Kids provided DMH detailed support for the 14 items disposed.

We have attached the details of our review along with recommendations for corrective action.

**Review of Report**

We discussed the results of our review with Counseling4Kids and DMH on May 4, 2009. In their attached response, the Agency concurred with our findings and recommendations. The Agency also reduced their Cost Report by \$96,358, which is the total amount we identified as questioned costs and as a result no longer owes the County for any over billings.

We thank Counseling4Kids management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

**Attachment**

c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Greg Less, President, Board of Directors, Counseling4Kids, Inc.  
Holly Pedersen, Interim Executive Director, Counseling4Kids, Inc.  
Public Information Office  
Audit Committee

**DEPARTMENT OF MENTAL HEALTH  
COUNSELING4KIDS, INC.  
FISCAL YEAR 2008-09**

**BILLED SERVICES**

**Objective**

Determine whether Counseling4Kids, Inc. (Counseling4Kids or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

**Verification**

We judgmentally selected 35 billings totaling 3,594 minutes from 322,524 service minutes of approved Medi-Cal billings for May and June 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,594 minutes represent services provided to 15 program participants.

**Results**

Counseling4Kids maintained documentation to support the billed service minutes. However, the Agency did not complete some elements of the Assessments, Client Care Plans and Progress Notes in accordance with the County contract requirements.

**Assessments**

Counseling4Kids did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for three (20%) of the 15 clients sampled on their Assessments. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires Agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients.

**Client Care Plans**

Counseling4Kids did not complete the Client Care Plans for two (13%) of 15 clients sampled in accordance with the County contract. Specifically, the Client Care Plans contained objectives that did not relate to the client's needs in the Assessment.

**Progress Notes**

The Agency did not complete six (17%) of the 35 Progress Notes reviewed in accordance with the County contract. Specifically:

- Five Progress Notes for mental health services did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals. This finding was also noted in the prior year's monitoring review.
- One Progress Note for the Medication Support Services did not indicate that the client was questioned about side effects, response to medication and medication compliance.

**Recommendation**

1. **Counseling4Kids management ensure that Assessments, Client Care Plans and Progress Notes are completed in accordance with the County contract.**

**STAFFING LEVELS****Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require staffing ratios for this particular program.

**Recommendation**

**None.**

**STAFFING QUALIFICATIONS****Objective**

Determine whether Counseling4Kids' treatment staff possessed the required qualifications to provide the services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 21 of the 101 Counseling4Kids treatment staff who provided services to DMH clients during May and June 2008.

**Results**

Each employee in our sample possessed the qualifications required to provide the services billed.

**Recommendation**

None.

**FINANCIAL VIABILITY****Objective**

Determine whether Counseling4Kids is financially viable and maintains sufficient working capital to sustain the cost of the program.

**Verification**

We interviewed Agency management and reviewed the Agency's financial records, cash flow, liabilities and earnings.

**Results**

Counseling4Kids did not maintain sufficient working capital to meet their current liabilities, which limited their financial viability. Specifically, as of June 30, 2008, Counseling4Kids reported an operating loss of \$19,582 and negative net assets of \$38,470 on their audited financial statements. Agency management indicated that the Agency has been exploring ways to strengthen their fundraising activities and cost savings efforts to minimize operating deficits. Counseling4Kids needs to submit to DMH a plan indicating how they will improve their financial condition, including how they will maintain sufficient working capital.

**Recommendation**

2. Counseling4Kids management submit a plan to DMH indicating how they will improve their financial condition, including how they will maintain sufficient working capital to meet current liabilities.

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash and other liquid assets.

**Verification**

We interviewed Counseling4Kids management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for September 2008.

**Results**

Counseling4Kids maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

**Recommendation**

None.

**COST ALLOCATION PLAN****Objective**

Determine whether Counseling4Kids Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to allocate appropriately shared program expenditures.

We did not perform test work in this area, as Counseling4Kids does not allocate costs since the DMH program is their sole source of income.

**Recommendation**

None.

**EXPENDITURES****Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program.

**Verification**

We reviewed financial records and documentation to support 30 non-payroll expenditure transactions totaling \$79,742 charged to the DMH program between July 2007 and September 2008 and \$337,325 in building lease expenditures billed on the FY 2007-08 Cost Report.

**Results**

Counseling4Kids billed DMH \$96,358 for unsupported and unallowable building lease costs. Specifically, the Agency charged DMH:

- \$77,015 for donated office space. The property owner of the location did not charge the Agency rent from December 2007 through May 2008. However, Counseling4Kids charged DMH \$88,987 for leasing the new location when the

Agency only paid \$11,972 for June 2008 rent. The County contract indicated that the value of donated space is not reimbursable as direct or indirect expenditures.

- \$19,343 for rental expenditures related to prior fiscal years. In September 2007, the property owner invoiced the Agency \$19,343 for additional lease expenditures for Calendar Year 2006. Instead of revising their prior years' Cost Reports, Counseling4Kids billed the expenditures on the FY 2007-08 Cost Report. The County contract does not allow agencies to charge for expenditures incurred outside the agreement period.

During the contract year, DMH pays Counseling4Kids a negotiated rate for their cost reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

### **Recommendations**

#### **Counseling4Kids management:**

3. **Revise the FY 2007-08 Cost Report to reduce the reported program expenditures by \$96,358 and repay DMH for any excess amount received.**
4. **Ensure that only allowable program expenditures are charged to the DMH program.**
5. **Ensure that program expenditures are supported by adequate documentation.**

### **FIXED ASSETS**

#### **Objective**

Determine whether fixed assets and equipment charged to DMH were used by the DMH program and were adequately safeguarded.

#### **Verification**

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed 14 items with depreciation costs of \$7,085 that the Agency charged to the DMH program in FY 2007-08.

#### **Results**

Counseling4Kids did not notify DMH when they disposed of 14 items totaling \$34,863 as required by the County contract. The items included computers, servers, monitors



and a copier. Subsequent to our review, Counseling4Kids provided DMH with detailed support for the 14 items disposed.

### **Recommendation**

6. **Counseling4Kids management notify DMH prior to disposing fixed assets and equipment used for the DMH program.**

## **PAYROLL AND PERSONNEL**

### **Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

### **Verification**

We traced the payroll expenditures for ten employees totaling \$27,482 to the payroll records and time reports for the pay period ending September 30, 2008. We also interviewed six employees and reviewed personnel files for ten employees.

### **Results**

The payroll expenditures were appropriately charged to the DMH program. However, three (30%) of the ten personnel files did not contain documentation that the Agency conducted criminal clearances. Subsequent to our review, Counseling4Kids obtained criminal clearances for the three employees.

### **Recommendation**

7. **Counseling4Kids management ensure that criminal clearances are obtained for all staff working on the County contract and maintained on file.**

## **COST REPORT**

### **Objective**

Determine whether Counseling4Kids FY 2007-08 Cost Report reconciled to the Agency's financial records.

### **Verification**

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

**Results**

The total Agency expenditures listed on Counseling4Kids' Cost Report reconciled to the Agency's accounting records.

**Recommendation**

None.

**PRIOR YEAR FOLLOW-UP****Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from FY 2004-05 monitoring review were implemented. The report was issued on July 20, 2005.

**Results**

The prior year's monitoring report contained three recommendations. Counseling4Kids implemented one recommendation, one recommendation is no longer applicable and one recommendation was not implemented. The outstanding finding relates to recommendation 1 contained in this report.

**Recommendation**

8. Counseling4Kids management implement the outstanding recommendation from the prior monitoring report.



May 25th, 2009

TO: Wendy L. Watanabe  
Auditor-Controller

FROM: Holly Pedersen, Interim Executive Director  
Counseling4Kids

SUBJECT: Response to Mental Health Contract Review

Thank you for the feedback regarding Counseling4Kids' compliance with the terms of our County contract. Counseling4Kids has been serving at-risk children and youth, including those in foster care, in the San Fernando Valley, South Los Angeles and greater Los Angeles for over ten years with our "clinical without walls" service delivery model of in-home therapy. We are committed to providing the highest quality and most effective treatment possible and value our partnership with Los Angeles County.

Counseling4Kids has reviewed and concurred with the recommendations on the above referenced report.

We submit the following responses and corrective action plan:

Recommendation

1. Counseling4Kids management ensure that Assessments, Client Care Plans and Progress Notes are completed in accordance with the County Contract.

Response:

We would like to note that *all* the Assessments sampled contained information in support of the diagnosis given. However we agree that the three Assessments found to be inadequate could have had *more* descriptive information specific to the clients' particular manifestation of the diagnosis and their individualized symptoms.

We agree that the sampled CCCPs contained objectives could have been more directly related to the client's needs, diagnosis and symptoms described in the Assessment.

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Ph: 818-441-7800 Fax: 818-441-0014  
Web: [www.counseling4kids.org](http://www.counseling4kids.org)

We believe that the identified progress notes *were* reflective of the clients' diagnosis and presenting problems, if not explicitly describing how the interventions linked to the client care plan objectives.

The Clinical Director and Director of Quality Assurance have addressed the above recommendation by providing additional training to our clinicians and psychiatrists on Assessment, developing client care plan objectives and writing progress notes in compliance with DMH and agency standards. In addition, we have implemented a more stringent review by Clinical Managers of all clinical documentation submitted by our clinicians and psychiatrists to improve the quality of our clinical documentation and its compliance with DMH requirements.

Recommendation

2. Counseling4Kids management submit a plan to DMH to improve their financial condition including a plan to maintain working capital to meet current liabilities.

Response:

Counseling4Kids has experienced two executive leadership transitions in the last 3 years, resulting in obstacles to strengthening fundraising, identifying ways to diversify funding streams, and engaging in activities that would result in increased working capital and improved financial health. The management at Counseling4Kids feels confident that the agency is now in a period of stability which will lend itself to a greater focus on fundraising, resource development and improving our financial condition. This includes Board development to strengthen our Board member's competence as fundraisers, so they can assist with fulfilling the agency's current financial needs. Building a fundraising program from scratch is a slow process, but our Board of Directors steadily moves forward in creating this capacity for the agency. We are expecting improvements to our net deficit for FY 08-09 as the Board and staff develop and expand the agency's donor outreach and cultivation efforts and we become more successful at fundraising.

Strong budget management for FY 07-08 and FY 08-09 has yielded level production of mental health service and a reduction in wide swings in cash flow. This has allowed the agency to continue to provide quality out-patient mental health services to foster children despite limitations of working capital resources. The agency is in the process of cost cutting more administrative expenses to provide more services to the community and establish an even more efficient infrastructure.

Counseling4Kids currently submits a monthly business plan to DMH, and is in frequent contact with our lead District Chief and Fiscal Officer regarding the agency's financial condition and our plan for improving it. Counseling4Kids' Executive Director and Director of Finance will continue to work closely with DMH to monitor our financial viability, including submitting monthly business plans and providing regular updates on our efforts to secure sufficient working capital.

Recommendation

3. Revise the FY 2007-2008 Cost Report to reduce the reported program expenditures by \$96,358 and repay DMH for any excess amount received.

Response:

Counseling4Kids has modified the FY 2007-2008 Cost Report, reducing the expenditures by \$96,358 as recommended. We would like noted that Counseling4Kids uses accounting methodology consistent with

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GAAP. In the case of accounting for these rent expenditures, however, this methodology was not appropriately applied. The Director of Finance and Executive Director will ensure that in the future the agency's accounting practices are appropriately applied for rent expenditures.

In addition, the Executive Director and Director of Finance will work closely with DMH during the settlement period for the relevant fiscal years in order to reconcile any excess payment received by the agency from DMH.

Recommendation

4. Ensure that only allowable program expenditures are charged to the DMH program.

Response:

Counseling4Kids, under the guidance of the Executive Director and Director of Finance, will ensure that only allowable program expenditures are charged to the DMH program.

Recommendation

5. Ensure that program expenditures are supported by adequate documentation.

Response:

Counseling4Kids has been working closely with our lessor to ensure that they provide us with adequate documentation to account for our rent expenditures. We have been given assurance from our lessor that in the future, they will provide the agency with the supporting documents we are required to submit to DMH.

Recommendation

6. Counseling4Kids management notify DMH prior to disposing fixed asset and equipment used for the DMH program.

Response:

This contract requirement was overlooked during the agency's executive leadership transition. However, the agency will now ensure full compliance with this contract requirement and will notify DMH prior to disposing fixed assets and equipment used for DMH programs. As noted, Counseling4Kids has provided DMH with the required information regarding the 14 items that were disposed of.

Recommendation

7. Counseling4Kids management ensure that criminal clearance are obtained for all staff working on the County contract and maintained on file.

Response:

Per Agency policy and procedures, Counseling4kids conducts a criminal clearance screening for all employees. The missing documentation has been completed, filed and provided to the Department of Auditor-Controller.

Recommendation

8. Counseling4Kids management implement the outstanding recommendation from prior monitoring report.

Response:

Counseling4Kids has made every effort to implement the recommendation from the prior monitoring report related to ensuring that our clinical documentation is in compliance with our County Contract. We have provided additional training to clinicians on progress note writing in compliance with DMH requirements. We believe that our progress notes comply with DMH contract requirements.

Counseling4Kids thanks the reviewers for their time and feedback and the County Supervisors for their interest in maintaining the highest quality of services and utilization of funding for at-risk children and youth.

Sincerely,

A handwritten signature in black ink, appearing to read "Holly Pedersen", with a long horizontal flourish extending to the right.

Holly Pedersen, MFT, Ph.D.  
Clinical Director  
Interim Executive Director  
Counseling4Kids